U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

ASSISTANT INSPECTOR GENERAL S REPORT

**TO THE HONORABLE
ALEXIS M. HERMAN
SECRETARY OF LABOR**

The *Chief Financial Officers Act of 1990* (CFO Act) requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, the United States Department of Labor (DOL), a Department of the United States Government, prepares annual financial statements, which we audit.

The objective of our audit is to express an opinion on the fair presentation of DOL's Fiscal Year 1998 principal financial statements. Our objective also is to obtain an understanding of the Department's internal control and test compliance with laws and regulations that could have a material effect on the financial statements.

We have audited the consolidated balance sheet of the United States Department of Labor as of September 30, 1998, and the consolidated statements of net costs, changes in net position, budgetary resources, financing, and custodial activity for the year then ended.

These financial statements are the responsibility of the DOL's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, Note 1 to the financial statements describes the basis of accounting used by the Department to prepare the financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

**RELATIONSHIP TO THE
SINGLE AUDIT ACT**

The financial statements for the year ended September 30, 1998 include:

! costs for grants, subsidies, and contributions primarily with various state and local governments and nonprofit organizations in the amount of $8.0 billion;

! costs for unemployment benefits incurred by state employment security agencies in the amount of $19.7 billion;

- state employer tax revenue of $20.3 billion;

- net receivables for state unemployment taxes and benefit overpayments of $0.5 billion; and

- reimbursements from state, local, and nonprofit reimbursable employers in the amount of $1.0 billion, for unemployment benefits paid on their behalf.

Our audit included testing these costs, financing sources, and balances at the Federal level only. Pursuant to a mandate by Congress, the examination of these transactions below the Federal level is primarily performed by various auditors in accordance with the Single Audit Act of 1984, as amended, and OMB Circular A-133. The results of those audits are reported to each Federal agency which provides direct grants, and each Federal agency is responsible for resolving findings for its awards.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements referred to above present fairly, in all material respects, in conformity with the basis of accounting described in Note 1:

- the assets, liabilities, and net position of the Department of Labor as of September 30, 1998; and

- the net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary resources, and custodial activity for the year ended September 30, 1998.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the FY 1998 principal financial statements of the DOL taken as a whole. The information discussed below is presented for purposes of additional analysis and is not a required part of the principal financial statements.

- The information in the Required Supplementary Stewardship Information and Required Supplementary Information sections has been subjected to the auditing procedures applied in the audit of the DOL's principal financial statements and, in our opinion, is fairly stated in all material respects in relation to the principal financial statements taken as a whole.

- The information in the Overview of the Department of Labor and Supplementary Social Insurance Information sections of the Department's annual financial statements has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we express no opinion on it. This information is, however, addressed in our assessment of internal control discussed below.

REPORT ON INTERNAL CONTROL

In planning and performing our audit of the aforementioned financial statements, we considered the Department's internal control over financial reporting by obtaining an understanding of the design of relevant internal controls, determined whether they had been placed in operation, assessed control risk, and performed tests of the significant internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not express an opinion on such controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued bythe American Institute of Certified Public Accountants, reportable conditions are matters coming

to our attention relating to significant deficiencies in the design or
operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters, discussed in the following paragraphs, involving the internal control and its operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In addition, we considered the DOL's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal controls, determining whether they had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 98-08, as amended, and not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

Finally, with respect to internal control relating to performance measures included in the Overview of the Department of Labor, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation, as required by OMB Bulletin 98-08, as amended. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. However we noted certain deficiencies in internal control over reported performance measures discussed below that, in our judgment, could adversely affect the agency's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria.

Management's comments on the internal control over financial reporting and performance measure findings and recommendations, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings are included in the Findings and Recommendations section of this report.

We noted other matters involving the internal control and its operations that will be reported to the management of DOL in a separate letter.

REPORTABLE CONDITIONS

We identified the following conditions that we believe are reportable conditions.

Financial Reporting

Financial Statement Preparation Process

The Office of the Chief Financial Officer (OCFO) recently implemented a new financial reporting system and fully adopted the new Federal financial statement format required by OMB Bulletin 97-01, as
amended. However, the OCFO still needs to complete documentation that provides an integrated view of the procedures, personnel and systems employed in preparation of the consolidated financial statements.

Cost Accounting Allocation Process

The Department allocated agencies' costs to the respective responsibility segments included in the financial statements. However, the rationale for agency cost allocation methodologies was not adequately documented.

FMFIA Reporting Process

The strategies used by some DOL agencies to determine internal control and financial management system weaknesses, as required by the *Federal Managers Financial Integrity Act of 1982* (FMFIA), were limited to reviewing the OIG's internal control findings presented as part of the annual financial statement audit. As provided in OMB guidance for FMFIA, agencies should consider other sources and self-assessments.

EDP Controls

To gain assurance that financial data produced by Electronic Data Processing (EDP) systems is reliable, we reviewed the following systems: Back Wage Collection and Distribution System (BCDS), Black Lung Disability Trust Fund System (BLDTF), Civil Monetary Penalties System (CMP), Department of Labor Accounting and Related Systems (DOLAR$), Federal Employees' Compensation Act System (FECA), and Longshore Special Fund System (LSFS). We also reviewed prior year recommendations pertaining to other DOL systems. We noted several weaknesses that affect one or more of these systems.

Entity-Wide Security

- Independent risk assessments have not been performed or properly documented on a regular basis or at the time systems, facilities, or other conditions change (BCDS, CMP, and FECA).
- An independent group responsible for security administration has not been established (BCDS, CMP, DOLAR$, FECA, and LSFS).
- The FECA system has not been accredited by the program manager.
- FECA's host data center has no security plan, and the security plan for DOLAR$ is incomplete.
- Existing computer security termination procedures are inadequate (BLDTF and FECA).
- Our audit found several instances where security clearances had not been performed for personnel considered critical users (DOLAR$).
- The following disaster recovery/business continuity issues were identified:
    - Lack of disaster recovery/business continuity plans (BCDS, CMP and FECA).
    - Lack of complete inventory listings of items such as computer hardware, software, and telecommunications needed for operations (DOLAR$ and FECA).
    - Lack of documented policies and procedures for performing system backup and tape storage (LSFS).

Access Controls

- Standard system access request forms and authorization procedures are not used (BCDS, CMP, DOLAR$, and FECA).
- Users share IDs and passwords (BCDS, CMP, and DOLAR$).
- Servers reside in an unsecured location, with a minimally controlled environment (LSFS).
- Lack of review of access logs of sensitive data files (BCDS and CMP).

Application Software Development and Change Control

- Lack of up-to-date change control policies and procedures (BCDS, CMP, DOLAR$, and FECA).
- Lack of a library management system (DOLAR$ and FECA). In addition, FECA program development staff have access to both test and production environments.

- Inadequate documentation of FECA technical programming and user operations, and Job Corps software development and configuration management.

Funds With Treasury

The Department continues to have problems reconciling its accounts with Treasury. Unreconciled differences at September 30 increased 36 percent over FY 1997. Further, while Treasury has discontinued the use of Budget Clearing Accounts as of the end of FY 1998, the Department still had unreconciled differences in these accounts. Because of these differences with Treasury, the Department cannot ensure that all deposits and disbursements are accurately recorded. During our audit we found several FECA payments that had been diverted to an employee's personal bank account. This situation could have been detected if proper reconciliations with Treasury were conducted.

Wage and Hour s Back Wage System

As previously noted in our FY 1993, 1996 and 1997 audits, the Wage and Hour Division (WHD) does not maintain sufficient control over information recorded in the back wage subsidiary system (Back Wage Collection and Disbursement System - BCDS), and certain policies and practices exercised by the regional offices preclude the use of this system as a reliable subsidiary for back wages. In response to the FY 1997 report, WHD stated they would redesign the BCDS to ensure that it meets all financial management and accounting standards. Management plans to complete a detailed design plan in the third quarter of FY 1999.

Wage and Hour s Civil Monetary Penalties (CMP) System

In our FY 1993 audit, we recommended that WHD install a CMP tracking system which would function as a subsidiary for CMP activity and related receivable balances. A new CMP system is substantially complete; however, all system reports and the general ledger interface are still lacking.

Consistent with the results of prior year testing, current year errors identified include: contested cases which were recorded in the CMP system; assessments either not recorded in the CMP system or recorded for the wrong amount; and CMP account receivable balances not recorded as of the date the CMP claim was a legally enforceable and measurable claim. The WHD is reviewing the validity of initial data entered into the new CMP system and initiating an ongoing data entry quality review program.

FECA Program

Segregation of Duties

The claims examiners' ability to change the address field in the Automated Compensation Payment System (ACPS) represent an inadequate segregation of duties in that claims examiners can also initiate and compute payments. The address fields also contain the information for directing EFT payments. As previously noted, a FECA employee was able to misdirect payments to their personal bank account.

Chargeback Accounting

Improvements are still needed in the reconciliation process between Treasury reports and the system used to account for billings to other Federal agencies for Federal workers compensation benefits paid by DOL on their behalf. We also continued to note that cash receipts are not timely posted.

Continuing Eligibility - SSA Earnings Confirmation

As reported for several years, improvements are still needed in obtaining earnings statements from the Social Security Administration. New regulations effective January 4, 1999, provide for the automated matching of earnings information with various Federal and state agencies. ESA should pursue a periodic automated case match with these entities.

Medical Bill Payment System (BPS)

Improvements are still needed in regard to the BPS at the district offices to ensure that medical bills are keyed correctly, bypass codes are being properly utilized, and procedure code modifiers are entered properly. Also, improvements could be made to ensure that medical bills receive adequate review prior to payment.

Accounts Receivable

We continue to note that the Office of Workers' Compensation (OWCP) debt management system includes inaccurate accounts receivable balances due to errors in recording overpayments and assessment of interest and other posting errors.

FECA Actuarial Model

FECA needs to complete the documentation of the FECA Actuarial model. Also, as previously recommended, a formal review system of ad hoc adjustments was implemented; however, the October 1998 compilation of the FECA actuarial liabilities was released before the ad hoc adjustments were reviewed. The review should be completed before such information is released.

Accounting for Grants

ETA Grant Accounting

ETA grant accounting has the following deficiencies:

- ETA does not have written grant accounting procedures for use at the regional offices. This has resulted in inefficiencies and procedural errors in the grant accounting function.
- We continue to note a lack of timely recording of grantee and contractor cost information.
- ETA regional offices do not consistently reconcile cash transactions recorded in the Department of Health and Human Services' Payment Management System with those recorded in the Grant and Contract Management Information System (GCMIS), despite the fact that instructions requiring such reconciliations were issued by the Office of Regional Management in prior years.
- We noted inappropriate cost adjustments recorded in GCMIS, and adjustments which were not sufficiently supported. In certain cases, entries were recorded to make costs equal payments, even though a cost report for the amount recorded was not received from the grantee. In other cases, large negative adjustments were inappropriately recorded in GCMIS.

Accrued Costs

In prior years, we made recommendations to ETA regarding the method and timing of its accrual for costs incurred but not yet reported by grantees and contractors. While ETA revised its accrual methodology, this revision was made only to the year-end entry rather than to the automated accruals booked throughout the year. Further, ETA has not developed a process to periodically review and refine the accrual methodology, and to ensure that the methodology applied is based on current information and relationships between actual costs and payments.

Fines and Penalties

In our FY 1996 audit, we recommended that steps be taken to ensure that MSHA's accounting system be able to provide transaction level detail to support billings, collections, writeoffs, accrued interest, administrative fees, and other adjustments in compliance with OMB Circular A-127. These weaknesses still exist in the MSHA system. Completion of corrective action is planned by the end of FY 1999.

Property and Equipment

Job Corps Real and Personal Property

In past years, we reported numerous issues related to ETA's accounting of Job Corps' real and personal property. The systems used by ETA consist of manual spreadsheets, which are updated and recorded in the general ledger at year end only and are not reconcilable to the cost reports submitted by Job Corps' contractors. In FY 1999, ETA plans to implement and integrate the construction-in-progress module into the Capitalized Asset Tracking and Reporting System, resulting in a fully integrated subsidiary ledger supporting the Department's general ledger.

SESA Real Property

In prior years, we reported that ETA did not maintain sufficient accountability over real property purchased with State Employment Security Agencies (SESA) grant funds in which the Department maintains a reversionary interest.

ETA established a position to monitor and develop written guidance for recording of SESA real property. However, ETA still cannot provide a complete and up-to-date SESA inventory list or state certifications of SESA real property. ETA is currently updating the SESA real property inventory list and obtaining state certifications.

Unemployment Trust Fund (UTF)

Investment Interest Receivable Accruals

UTF interest receivable accruals were calculated by Treasury and entered in the Department's general ledger without review by ETA or the OCFO. As of September 30, 1998, interest receivables totaled $1.2 billion. Although Treasury has custodial authority over UTF investments, the Department of Labor, through agreement with Treasury, has assumed budgetary and reporting responsibility for UTF balances. Controls should be in place to assure management that recorded transactions are correct.

Trust Fund Administrative Assessments

As initially noted in our FY 1992 audit, ETA needs supporting data to document that DOL's administrative charges to the UTF represent actual expenditures in accordance with the budget. The OCFO issued instructions for tracking trust fund administrative expenditures; however, some of the agencies are having problems implementing the instructions. We determined that the corrective action plan is not going to be accomplished; therefore, a new corrective action plan needs to be developed.

Federal Employees Unemployment Compensation

In previous audits of the UTF, recommendations related to the need for establishment of an accounting system for the Federal Employment Compensation (FEC) Account were made. Management anticipates the integration of the FEC accounting system with the Department's general ledger to be completed by the end of FY 1999.

Longshore Program

In previous audits, weaknesses were identified in the internal controls for the reporting and authorization of payments to rehabilitation service providers. The weaknesses pertain to the controls between the district offices' submission of bills and the national office authorization for payment. An automated system is being developed which should improve controls in this area.

Black Lung Disability Trust Fund (BLDTF)

Our FY 1995 audit noted that several assumptions used by the Black Lung actuarial model had not been updated recently or reviewed to determine if changes were necessary. ESA agreed to review and revise elements of the actuarial model. Certain elements have been addressed; however, management should continue to refine and update the model for the following elements: age distribution, new entrant assumptions, and mortality table updates.

Accounts Receivable

As originally noted in our FY 1996 audit, we continue to note the need for guidance to the agencies on the proper identification, accounting, collection, and reporting for accounts receivable. The Acting Chief Financial Officer intends to update departmental policy by providing minimum requirements that all agencies should follow in accounting for accounts receivable balances at year end.

Working Capital Fund (WCF) Cost Allocations

We noted in our FY 1992 audit the need for developing a strategy for allocating DOL Academy costs based on usage of the Academy's training services ensuring cost recoveries which are based on unit pricing of goods and services reflecting the current costs to the WCF for providing such service. WCF has now developed such a strategy. During FY 1999, the OCFO will monitor reporting of recovery data from the Human Resources Center to ensure that the strategy is properly implemented.

Performance Measures

We previously reported the need for the Unemployment Insurance Service to verify the accuracy of non-Federal entity data reported to DOL and used for performance measurement. A verification process has been piloted and full implementation is planned in FY 2000.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the DOL is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, as amended, including the requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA).

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed instances of noncompliance with certain laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08, as amended, which are described below.

Management's comments on the findings and recommendations on noncompliance with laws and regulations and noncompliance with FFMIA, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings, are included in the Findings and Recommendations section of this report.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Debt Management

Eight DOL agencies or programs have not referred all receivables that have been delinquent for a period of 180 days to the Department of the Treasury for collection as required by the *Debt Collection Improvement Act of 1996* (DCIA).

Grant Closeout Process

JTPA grants were not closed out in accordance with applicable regulations (*29 CFR § 97.50(b)*) and departmental policy. In addition, ETA has revised its grant closeout tracking system; however, several areas remain to be corrected such as including JTPA grants to states, regional office grants and contracts, and the current status of the grant file. Finally, although ETA has made progress in reducing a backlog of open grants and contracts, there is still a large number of grants and contracts which need to be closed.

Wage and Hour's Back Wage Systems

Under the provisions of the *Fair Labor Standards Act,* section 15(c), and the *Service Contract Act*, section 5(b), back wages are determined and collected by ESA for remittance to the affected employees or, if the employees cannot be located, to the U.S. Treasury. Back wages collected are held in a special deposit account for a period of time prescribed by law, after which they revert to Treasury. Although significant progress has been made in reverting funds to Treasury, as of September 30, 1998, there was approximately $800,000 on deposit that had not been distributed to employees (primarily from the San Francisco and Philadelphia regions), and should have been reverted to the U.S. Treasury.

Establishment of Advisory Council by UTF

During FY 1997, we noted that the Advisory Council on Unemployment Compensation (ACUC), required by section 908 of the *Social Security Act*, had not been reestablished. During the current audit, we found that a new ACUC had still not been established nor had a time frame been provided as to when another council would be discussed or established.

COMPLIANCE WITH FFMIA

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08, as amended.

Our FY 1997 audit disclosed that seven subsidiary DOL financial management systems did not substantially comply with one or more of the three requirements discussed in the preceding paragraph. The results of the current year audit disclosed that five of the seven systems remain in noncompliance:

- Wage and Hour's Back Wage system,
- Wage and Hour's Civil Monetary Penalties system,
- MSHA's penalty tracking system,
- Job Corps' real property system, and
- Job Corps' personal property system.

Noncompliance issues are detailed in the Findings and Recommendations section and include: complete, timely, reliable and consistent information not provided; financial information not processed effectively and efficiently; a complete and adequate audit trail not provided; and transaction detail supporting SGL accounts not readily available. The Department is working to correct these deficiencies within the required time frame established by FFMIA (3 years).

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This report is intended solely for the information of the U. S. Department of Labor management, the Office of Management and Budget, and the Congress. This report is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

JOHN J. GETEK
Assistant Inspector General for Audit

January 29, 1999